

# TRIPS AMENDMENTS (work in progress) – background and explanations

The following memorandum, as well as the text to which it refers, mainly reflect the state of the project at the time when it was presented at the ATRIP Parma Congress. But as this is an ongoing project, some further amendments have been added, partly as a result of the feed-back received in Parma. The text is by no means final, and it does not in all parts express opinions that have been thoroughly considered by the working group as a whole. But an important purpose of its publication on this website is to invite comments and to spur further discussion on a wider basis. Remember, the project is still ongoing.

## I. Introductory Remarks

### 1. The IPT Project as a background for the proposed Amendments to TRIPS

The present proposal has been developed in the framework of a project conducted under the title “Intellectual Property Rights in Transition” (IPT) by a group (hereinafter “the working group”) of legal academics, mostly from the Nordic countries (Marianne Levin, Stockholm; Niklas Bruun, Helsinki; Jens Schovsbo, Copenhagen; François Curchod, Geneva/Strasbourg and myself). The project deals with the challenges posed for the traditional structure of intellectual property rights by the current changes in the socio-economic framework as well as by the political agenda. Inter alia, it is meant to explore what is tentatively called the “One right system” for intellectual property protection, i.e. the formulation of overarching principles on which all types of intellectual property rights rely and to which they should respond.

The proposed “Amendments to TRIPS” are *neither final nor comprehensive* with regard to that project in its entirety. They only represent one step within the project’s general layout.

The decision to choose the format of concrete proposals for amendment of TRIPS as a way to present some of the group’s preliminary findings was made, first, because the ambition has been not only to remain within the ivory tower of academic discussions, but to make an impact on the real world. Another reason has been that the TRIPS Agreement with regard to its genesis, its contents, and the political processes evolving in the aftermath of its conclusion, offers an obvious and prominent target for the criticism voiced in recent years against the intellectual property system and its main proponents. To consider whether and how the widely perceived imbalance of the IP system – of which the mandatory rules imposed by TRIPS may be taken as an example – could be rectified by introducing amendments to that Agreement therefore offered a natural opportunity to address at least some of the urgently felt and widely articulated needs for

re-adjustment of the system, and to highlight, in a concise form, possible ways to overcome the perceived deficiencies<sup>1</sup>.

On the other hand, the approach chosen here does imply obvious restrictions. In particular, it is not possible to include into proposals for amendment of TRIPS all elements that are of relevance for a fully elaborated IP system, as would be the ultimately desirable outcome of the IPT project. This concerns for example the “One right system” to which reference was made above: TRIPS does not, and can not, furnish an appropriate basis for a comprehensive demonstration of the structural and practical implementation of such a novel system. Instead, the present proposal only reflects certain aspects of the One right system, most prominently by adopting a holistic approach towards the general clause-like provision on balance of interests (Article 8a), which complements the limitation provisions in Part II, and rephrases the current three-step test.

## **2. Basic policy choices: Minimum or maximum protection rules?**

### a) General considerations

Just like all other international agreements on substantive IP law, TRIPS imposes minimum rules for protection of IP rights. If that structure is maintained, proposed amendments can (only) take the form of granting more flexibility, e.g. by lowering or relaxing rules concerning the range of objects that must be regarded as eligible for protection, or the mandatory scope of protection, or the admissibility of limitations. It is submitted that such an effort, in particular concerning a relaxation of the three-step-test in copyright, but also in patent and industrial design law, would already be a meaningful step helping to transform the “one-size-fits-all” kind of regulation, of which TRIPS is often accused, into a system that leaves enough room to accommodate the individual needs of Members in varying states of development and under different socio-economic circumstances.

At the same time, to confine the proposal to amendments that would leave unchanged the overall structure of TRIPS as a convention on minimum rights to be granted to right holders, might appear as half-hearted and unsatisfactory. First, an agreement leaving it entirely to the Members’ own discretion whether they want to make use of extended flexibilities or rather prefer to maintain or introduce a considerably more rigid system under

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<sup>1</sup> We are of course aware that other, very promising and well-developed initiatives have been launched which proceed on different routes, like in particular the proposals for conclusion of a Treaty on Access to Knowledge. In this text, we do not deal any further with those alternatives, for reasons of space. However, we would certainly welcome an exchange of ideas, in particular as we regard the different proposals as not being mutually exclusive, but as offering an excellent opportunity for reinforcing possible impact on different levels.

domestic law, might fail to produce any effects at all in countries where, thanks to the superior bargaining power of organizations representing right holders' interests, legislation tends to be biased in favor of strong rights. Second and possibly posing an even more serious issue, a convention that only establishes minimum protection requirements can always be superseded by obligations that Members take upon themselves in the framework of bilateral negotiations. It is a widely spread practice already now that so-called TRIPS-plus elements are included into Free Trade Agreements (FTAs). If TRIPS should be changed so as to leave Members more freedom than at present, e.g. to reduce the scope of the protection granted in favor of extended users' rights, this would probably lead to increased pressure in bilateral negotiations to preserve and guarantee (at least) the pertinent protection level.

As a possible safeguard against such unwanted effects, *mandatory* elements might be introduced that impose *limits* on the IP rights granted, e.g. by obliging Members to prohibit certain uses of rights, or to respect and guarantee certain rights of users ("substantive maxima"). Such rules would fulfill the double purpose of

- obligating Members to pay full respect the interests and legal position of IP users in particular, and the general welfare of their own citizens, in domestic legislation (internal safeguard), and
- making Members immune against pressure from other countries to introduce overly high protection standards (external safeguard).

However, intriguing as this thought may be, it is far from certain that it would actually function in a satisfactory manner, given the specific context of TRIPS, and the mechanisms under which it operates. In particular, it must be realized that Dispute Settlement Proceedings under the WTO regime – i.e. the procedural mechanism giving "teeth" to TRIPS – will hardly ever be initiated out of the altruistic interest of another Member to ensure good governance and the establishment of a balanced system in other parts of the world. It will rather occur in those relatively rare cases when the Member initiating such proceedings sees a chance thereby to gain trade advantages for its own economy. For instance, such might occur when one country, although faced with an epidemic disease for which efficient cures are offered (only) by patented medicaments, fails to take the steps necessary to qualify for import of such medicaments produced by a generic manufacturer. In that situation, a country where production and export of generic medicaments is an economically important factor might find it useful to enforce a clause imposing a binding obligation on Members to safeguard domestic public health concerns. Although this makes sense, and would not be to the detriment of the population in a country run by an inert or disinterested government, it still remains doubtful whether such a result should be strongly promoted. In other words, it must be questioned whether it is desirable to impose e.g. an obligation concerning public health within a

legal framework where enforcement, if at all, would only occur selectively, with the motives for that selection typically not being in perfect line with the objectives underlying the introduction of such mandatory rules.

b) In particular: TRIPS and ESC rights

The specific question addressed above, i.e. whether the reference presently made to protection of public health and nutrition in TRIPS (Article 8.1) should be turned into a binding obligation, raises a number of other, quite crucial issues. There is no doubt that to impose such an obligation would change the character of TRIPS<sup>2</sup>. To do so might appear tempting. If the purpose and ambition of the proposed amendments is to outline an ideal and balanced system of IP rights, how could it then be justified that such undeniably important aspects as those addressed in Article 8.1 are not attributed more weight than at present? It should also be noted in that context that an obligation to recognize the need, and to implement necessary measures, for protection of public health and nutrition already forms part of the International Covenant on Economic, Social and Cultural Rights (ICESCR), see Articles 11 and 12 of that Convention, so that being bound to those principles by virtue of TRIPS would not confront Members with something totally new.

On the other hand it is doubtful whether an obligation of that kind would not be misplaced in TRIPS, given the fact that TRIPS does not deal with human needs and interests in general, but concerns a specific legal field that is dominated by private commercial interests. True – an obligation to adopt measures protecting public health and nutrition etc., if anchored in TRIPS, would only become legally relevant in situations when the failure of a Member to act has an impact on the manner in which IP rights are protected (against use by others) – see, for example, the hypothetical case of failure to take the necessary steps for qualifying as a country into which pharmaceuticals manufactured abroad under a compulsory license may be imported (see new Article 31<sup>bis</sup> TRIPS). To keep that restriction in mind is important when pondering about the possible enforcement of such an obligation, i.e. the initiation of Dispute Settlement Proceedings. To depict a scenario where WTO Panels would have the right and the obligation to scrutinize Members' health and nutrition policies under a general viewpoint, and to impose sanctions if those policies in their entirety do not live up to the required level, appears frightening rather than reassuring. However, if it is strictly observed that in the context of TRIPS, such obligations would only be incurred in specific, IP-related situations, the prospect of enforcement

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<sup>2</sup> The change would be even more strongly emphasized if the objectives embedded in Art. 7 TRIPS were also turned into a binding obligation, i.e. if it were set out that IP rights "shall" contribute to the aims mentioned in that Article. Although such a change is certainly debatable, for the time being, no such steps are proposed, for the same reasons as are set out in the text above.

mechanisms being triggered in case of failure to comply appears somewhat less inapt.

Nevertheless, under the present conditions, the introduction of binding obligations relating to ESC rights into TRIPS does not seem to present a feasible option. Attempts in that regard would have to proceed on a much broader scale, taking into consideration inter alia possible alterations of the institutional framework for dispute settlement (e.g. concerning the right to file complaints, rights of participation, constitution of panels, etc.). For the time being, therefore, the present proposal does not embark on such a far-reaching endeavor. Instead, the importance of the principles set out in Article 8.1 TRIPS – not only in the meaning that they guarantee Members' (relative) freedom to pursue those aims, but also in the sense of a "moral duty" of governments vis-à-vis their own population – is marked by exchanging the word "may" appearing in the present text by the somewhat stronger "should". In addition to this, repeated and express reference made to the principles (and objectives, Article 7) in the provisions dealing with limitations of IP rights is intended to make clear that Members' rights and obligations set out in Part II need to be interpreted in the light of those basic rules (and not vice versa, as might be argued to-date in spite of the recognition the independent weight of those provisions has received in the Doha process).

#### c) Limitation of substantive rights

Compared to the discussion concerning ESC rights in general, the question of whether to impose binding rules in the form of limitations of substantive rights does not venture so far into uncharted territory. It is true, however, that the technique of introducing substantive maxima until now has not (or only very rarely) been employed in international IP Conventions, which traditionally only *permit* exemptions and limitations, without making them mandatory.

While there is every reason in principle to abandon that approach in view of the goal to inspire a more balanced approach towards IP worldwide, the question must be raised also here whether to provide for an internationally binding ceiling regarding the scope and contents of substantive rights would actually benefit the position of users and the public at large. In as far as the internal situation in a Member state is concerned, the introduction of substantive maxima would not necessarily be of much help, given that TRIPS, according to a practically unanimously and universally held opinion, does not have direct effect (even in countries where such effect might in principle accrue according to constitutional law). Individual users, even when organized in private associations, would therefore not necessarily profit, for lack of legal means to enforce the implementation of substantive maxima before domestic courts. Again, under the present structure, it is only

in such rare and atypical situations when another Member is interested, typically for its own benefits, in bringing proceedings under the WTO dispute settlement mechanism that teeth would be added to such obligations.

Regarding the aspect that substantive maxima would help Members to resist pressure from third parties urging them, on a bilateral basis, to introduce TRIPS-Plus elements in their legislation (the “external safeguard” argument), some qualifications need to be made as well. Generally speaking, the problem with the TRIPS-Plus elements currently under debate in the context of Free Trade Agreements is not necessarily that the provisions as such are excessive or scandalous, but that they are typically ill-adapted to a Member’s individual situation, and that they are often accepted without proper consideration of their possible impact on the domestic economic environment (cf. typical FTA clauses such as prolongation of the protection period in patent law; accession to other treaties, in particular the WIPO copyright treaties; protection of plant varieties by patent law in addition to or instead of the *sui generis* plant variety protection regime; protection of medical test data; full and binding application of WIPO Recommendations, e.g. regarding protection of famous and well-known trademarks, etc). Those problems, however, where they occur, are basically due to deficiencies of procedural fairness and equal standing of the negotiating parties. Strictly speaking, this is owed to the lack of an international contract law addressing the problem of unconscionable contract clauses, which can hardly be solved by amending the TRIPS Agreement as such.

Furthermore, substantive maxima – or, putting it the other way round, minimum users’ rights – *per definitionem* can only indicate the “red line” beneath which no Member can go, although not conceding to the users all the rights one/they might wish for. There is a certain risk that to opt for such a solution would de facto result in a “one size fits all” solution also on the users’ side, which might be as unfavorable and ill-fitting to the large diversity of Members’ domestic situation as the minimum rights imposed in favor of right holders. It might also draw the unwanted effect of a large majority of Members adapting, on their own account or upon subtle pressure by others, their laws exactly to the internationally admissible substantive maximum.

Lastly, even when certain limitations are made mandatory by way of international statutes, this does not solve the question as to whether they can be set aside through contract by private parties. As use by third parties nowadays very often is dependent on the right holder granting access to protected (as well as unprotected) content, with that access typically only being granted under certain conditions to which the user has to submit, the decision of a lawmaker to limit the scope of IP rights with regard to certain modes of use becomes more and more irrelevant in practice (“privatization” of rulemaking). It is well known that the problem is exacerbated by the fact

that to break technical locks and encryption codes in order to overcome such access barriers is principally regarded as a violation in its own capacity, and is anchored as such in international conventions (the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty), with lawmakers being granted only limited amount of discretion to regulate in which situations they regard the breaking of barriers as justified.

In reacting to, and trying to address, at least a number of the concerns articulated in the previous paragraphs, the proposal has chosen the following route:

- Mandatory limitations are stipulated in the individual sections of Part II, replacing the provisions presently embracing the so-called three-step-test. The provisions largely reflect what is considered already to-date as the standard to which most countries adhere in their substantive laws. In addition to that, it is expressly set out in each provision that Members are free to introduce even more far-reaching limitations, suitable to their individual situation, thereby taking account of the objectives and principles set out in Part I.
- Weight and substance is added to the provisions in Part I incorporating the principles and objectives by reformulating Articles 7 and 8, and by inserting two new provisions, Articles 8a and 8b (both articles are treated in more detail below). Article 8a contains the guiding principles to be observed by the legislature and by courts in formulating and interpreting exemptions and limitations to intellectual property rights that go beyond the substantive maxima contained in the individual sections, while Article 8b encapsules the IP/competition interface.
- No provisions were added with regard to the immunity of limitations against abrogation by contract, or regarding the admissibility of breaking technical locks in order to get access to protected content. The regulation of such aspects therefore remains, just like at present, with the national legislatures, who have to deal with the situation under substantive law, contract law or, as the case may be, competition law (at least the latter would be addressed to some extent in the proposal). Admittedly, this result appears unsatisfactory, and the issue will be debated further.

#### d) Competition aspects

Finally, it remains to be stated that the debate over insertion of binding rules limiting the potential extent of IP rights was considered least problematic with regard to the (few) competition aspects that are, or are proposed to be, regulated in TRIPS. It was generally agreed that to provide for control measures, under competition law or equivalent rules, of abusive practices involving IP rights constitutes an obvious and important corollary to the mandatory protection of such rights, and should therefore be introduced as well on a mandatory basis, subject only to a Member's financial and

organizational capacity to introduce the necessary infrastructure. It was also estimated that the surveillance of such measures, or rather the failure to provide them, posed relatively few problems even with regard to their enforcement through WTO panels.

## **II. Comments on individual provisions**

### **1. Article 7 – Objectives**

Proposed Article 7 has no other objectives than the present one. However, while the present version is practically solely geared towards the field of technology, the proposed formulation reflects, under (a) (i) – (iii), the entire spectrum of policy goals to be aspired by a sound and balanced IP system. Apart from technology, this concerns cultural development and education as well as fairness in trade and promotion of competition. None of these aspects should be regarded as per se inferior to the others. By articulating the objectives in a more comprehensive manner than at present, and by referring expressly to interests typically countervailing the proprietary interest of right holders, it is also intended to place stronger emphasis on the balance to be struck, and to provide for certain guiding principles as to why and how the proprietary interests may have to give way to overriding interests of the public. The reformulation was further inspired by the growing awareness among developing countries of their particular needs.

While paragraph (a) fleshes out the present version of Article 7 without changing its basic contents, paragraph (b) introduces a novel element. It expresses what was considered by the working group as the basic rule steering a well-calibrated IP system – namely that the protection one gets under the system should ideally be measured according to the contribution made to society. No broad rights should be granted for protection of innovations or creations that are of merely incremental character, or for distinctive signs that are not instrumental for the well-functioning of markets. The rule reflects the understanding that overcompensation creates an imbalance in the system, gives cause for criticism and hampers competition.

It is not ignored that to implement such a rule in practice gives rise to a plethora of intricate questions. How is the contribution to society to be measured? And how is it possible to reconcile the requested appraisal of the individual merits of a protected achievement with the dynamics of a system that must be able to deal, for practical reasons as well as with regard to legal security, with processing and evaluation of rights on a more global scale?

No easy answer can be given to those questions. However, it needs to be remembered in this context that after all, Article 7 is not to be read as a stand-alone, hard and fast rule of law that calls for direct application under all circumstances. The provision is rather supposed to provide for a general guideline – a principal concept towards which the system should be geared. Its impact will primarily be felt in interaction with other provisions, e.g. when the scope of protection granted to one particular trademark or patent is measured in an individual conflict, or when limitations are formed and interpreted in a given case.

## **2. Article 8 – Principles**

Article 8 gave rise to discussions within the working group about the feasibility of introducing mandatory elements with regard to public health and nutrition, as well as regarding competition law aspects. As was explained in more detail above (I. 2), the result of these discussions has been that in Article 8 paragraph 1, the seriousness of Members' obligations concerning public health and nutrition should be emphasized by replacing "may" by "should", whereas in paragraph 2, the introduction of competition control of IP rights was made mandatory.

The 3<sup>rd</sup> paragraph refers in a general manner to Members' obligation to establish an efficient and adequate IP system, details of which are currently (only) addressed in Part V, Article 62 TRIPS. The introduction of a general provision in the framework of Article 8 serves to emphasize the importance of the infrastructural aspects of IP. It further pursues two specific objectives: First, it is clarified that the standard against which the obligation to establish a functioning IP system must be measured should correspond to the individual Member's state of development. Although that might appear as a matter of self-evidence, it was considered useful to insert such an express provision in order to avoid any misunderstandings created by interest groups focusing exclusively on possible shortcomings of a country's registration system etc., without realizing that in view of the general state of development, such deficiencies are just the normal symptoms of a generally ailing administrative infrastructure. Second, by making express reference not only to the acquisition, but also to revocation etc. of rights, the provision is meant to indicate that an efficiently functioning IP system must also place importance on the means available to scrutinize the (in)validity of IP rights, and to ensure that invalid rights are securely barred or removed from the register.

## **3. Article 8a – Balance of interests**

### **a) General remarks**

Article 8a contains the “balancing clause”, which is one of the core elements in the proposal. It is intended to build a solid link between Part I (General Principles and Objectives) and Part II (concerning standards for the protection of the individual IP rights), and to operate as a guideline for legislature and the courts, where pondering about the introduction or interpretation of limitations to intellectual property rights in cases which do not fall under the mandatory provisions in Part II.

b) Paragraph 2

(1) The *chapeau*

The *chapeau* of paragraph 2 is reminiscent of the three-step test in the current TRIPS provisions, on which – and in deliberate contrast to which – the provision is modeled. The freedom to be granted, in relevant cases, for third parties to get access, and to use for their own purposes, protected subject matter is not per se restricted to “certain special cases” (=Article 13 TRIPS – copyright) or “limited exceptions” (=Article 17 TRIPS – trademarks; Article 26 (2) TRIPS – industrial designs; Article 30 TRIPS – patents). It is submitted that such restrictions of a quasi-quantitative nature do not make sense as an independent, cumulative criterion to be assessed separately from a balancing of the conflicting interests at stake in a given situation. Rather, the potential reach of the limitation is an element to be considered within the balancing itself, i.e. not as a fixed requirement to be appraised in isolation, but as one (possibly important) factor influencing the appropriateness and proportionality of the measure in regard of the envisaged legal aims.

As the proposed provision does not distinguish between separate types of IP rights, it also does not attribute a special position to copyright, as does Article 13 TRIPS, where – by contrast to trademark, design, and patent law – any mentioning of third parties’ interests is omitted. It was not ignored by the working group that the wording of Article 13 TRIPS goes back to Article 9 (2) Berne Convention (BC), which also does not mention third parties’ interests. However, Article 9 (2) BC only concerns the right of *authors* to the *reproduction* of their works, whereas Article 13 TRIPS has extended the reach of that provision much further. Not only is the three-step-test applied to any kind of exclusive position granted under copyright, but it is also transposed from “authors” to “right holders”. It thereby becomes a stronghold for all kinds of interests of a purely economic nature, which may certainly be justified as such, but for which it can no longer be claimed that they should remain exempted from any need to be balanced against the interests of third parties.

This does not mean, however, that the spirit underlying Article 9(2) BC, where special respect is paid to the interests of authors, should be

discarded. However, instead of precluding any account being taken in copyright of third parties' interests, the present proposal holds a special clause in paragraph 2 (b) (ii), stipulating that regard must be had to the personal interests of original creators (see further below).

By way of citing and rephrasing further elements from the three-step test, the chapeau stipulates that Members must ensure that the legitimate interests of right holders are not unreasonably prejudiced, and that account must be taken of the normal exploitation of the right. The fact alone that unauthorized use would conflict with the normal exploitation of the right does not therefore give rise to a clash with international law<sup>3</sup>. It was considered important not to invite any automatism of such kind, lest the clause would become a source of immobility, rendering impossible any major changes in the ways and means by which IP rights are currently exploited. The formulation used in the present proposal therefore only obliges Members to "take account of" the normal exploitation, i.e. they must assess and measure the extent to which normal exploitation might become obstructed if certain modes of unauthorized use would be declared admissible, and they must then make, and be able to justify, their legislative decision in the light of that measurement.

Finally, it must be remarked that although this proposal deliberately deviates from the wording of the three-step test as presently embedded in TRIPS, this does not necessarily mean that it could not be "read into" the TRIPS provisions as they stand now. It is quite possible to argue that TRIPS even now is more flexible than it appears at first glance. However, the message conveyed by the WTO Panel reports interpreting the provisions in the patent and copyright sections<sup>4</sup> – Canada/patents<sup>5</sup> and USA/copyright<sup>6</sup> – has not been encouraging. Instead of undertaking a comprehensive assessment of the interests underlying the limitations at stake, the Panels applied a strictly literal interpretation of the three-step test, basing their appraisal practically exclusively on a measurement of the detraction caused by the limitation vis-à-vis a full exploitation of the right, without so much as even addressing the policy aspects possibly justifying that effect. Although the result of the two Panel reports may be acceptable as such, the method applied therein appears as highly problematic.

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<sup>3</sup> This is a marked difference in particular with regard to Art. 13 TRIPS in its present wording, where the existence of a conflict with normal exploitation already as such seems to warrant a finding that the second step has not been cleared, whereas in Artt. 26.2 and 30 the relevant question would be whether the limitation "unreasonably" conflicts with "the" resp. "a" normal exploitation of the right. In Art. 17, a formulation corresponding to the second step is missing altogether.

<sup>4</sup> The EU/GI decision, WT/DS174/R, of 15 March 2005, has been somewhat different, not least because the provision itself is more flexible than the others.

<sup>5</sup> WT/DS 114/R, of 17 March 2000.

<sup>6</sup> WT/DS 160/R, of 15 June 2000.

Therefore, if one agrees to the hypothesis put forward above that TRIPS already in its present form does leave some room for flexible solutions, the task becomes all the more urgent to render that potential visible in order to achieve a more secure and transparent framework for future interpretation of the three-step test by WTO Panels or national courts. One way to achieve that aim would be to amend the wording in the manner proposed here. As a less ambitious, but possibly quite efficient intermediate solution, the principles set out in the *chapeau* as well as the catalogue of factors of proposed Article 8a could be adopted, e.g. in the form of a Joint Recommendation under the aegis of WIPO, as a non-binding guideline for understanding the three-step test.

(2) Factors listed in Paragraph 2 (a) and (b)

(a) Structure of the provision

The listing of factors in paragraph 2 (a) and (b) is structured as follows: The list under (a) contains general principles to be weighed in favor of users' entitlement to have access to protected content. It is submitted that those factors are self-explanatory. The policy issues addressed therein are largely congruent with those reflected in the mandatory limitations set out in the various Sections in Part II. Their listing under Article 8a.2 (a) serves to highlight the fact that they may also furnish a motivation for limitations going beyond those which, according to this proposal, are considered to represent the internationally mandatory substantive maximum content of the protection conferred by the individual IP rights.

In formulating such limitations, Members are further guided by the additional factors listed under (b). Other than (a), the list under (b) does not primarily focus on policy principles weighing in the favor of users, but rather adds elements to the balancing process that are intended to encompass the interests of right holders as well, with the aim being to avoid an all-or-nothing solution, and rather to fashion appropriate solutions on the basis of a differentiated approach. The addition of those elements is considered to represent an important feature of the proposal; the individual factors under (b) are therefore explained in more detail in the following.

(b) Paragraph 2 (b) (i)

Paragraph 2 (b) (i) refers to the crucial principle that to provide for limitations does not necessarily mean that access to, and use of, protected creations are actually free. Particularly with regard to copyright and related rights, it has long been acknowledged that in certain situations, to insist on a fully exclusive right does not provide for satisfactory and feasible solutions; on the other hand, right holders should not be deprived of fair and equitable

remuneration. Such considerations have in many European countries led to schemes administered by collecting societies or other right holders' associations, like copying fees, levies upon hardware, or extended collective licensing. In other areas than copyright and related rights, the replacement of exclusive rights by liability models have, however, not found any broad acceptance. Nevertheless, it cannot be excluded that workable models for limited use in exchange for equitable remuneration will evolve also into other areas of intellectual property outside copyright and related rights.

The present proposal does not propel the development of such novel structures, nor does it preclude them. Paragraph 2 (b) (i) remains neutral in that regard. It only makes clear that in case of existing remuneration schemes, they have to be taken into account for the assessment of the admissibility of limitations.

Although the provision only addresses remuneration schemes in the usual meaning, i.e. in particular collectively administrated payment/distribution of gross fees and levies, the idea underlying factor (i) could also become relevant in when rightholders are de facto capable of sealing off their products from access by others without payment, in particular by deploying technical protection measures. It is possible to argue that in such a situation as well, the need possibly otherwise existing under international law to grant full exclusivity with regard to certain modes of use may become less stringent, thereby making way for more differentiated regulation schemes.

(c) Paragraph 2 (b) (ii)

Factor (ii) concerns a central aspect of the proposal. One of the main reasons for the growing discomfort with copyright in its present form is deemed to result from the fact that the traditional image of bipolar interests – copyright holders vs. users – no longer corresponds to reality (if it in fact ever did). The interests involved can be better expressed in a tripolar fashion: Those who deliver the protected content – the original creators –, those who exploit and market that content –the right holders –, and those that require access to the protected content - the general public (users). These distinctions are often blurred by the fact that the right holders, in order to justify their demands for (additional) protection, claim for themselves the position of the original creators. However (and irrespective of the differences in legal systems), there is growing awareness and concern about the fact that the interests of original authors and (other) right holders do not always coincide but may indeed be quite different in certain respects, and that in the end it is only the former who are procreating new works and whose interests therefore merit specific attention.

As a consequence of the distinction made above, factor (ii) attributes special importance to the personal interests of the original creators (as opposed to right holders), be they of a moral or financial nature. This concerns of

course the interests traditionally protected by Article 6<sup>bis</sup> of the Berne Convention (*droit moral*), i.e. the paternity right and the right to prevent and prohibit mutilation and distortion of the work. The formulation also pays tribute to the rights acknowledged in the UN Charter of Human Rights. In addition to that, it embraces other interests, including interests of a financial nature. For instance, the obstacles against free access for third parties to protected subject matter could be set higher in a situation when the financial benefits to be derived from exclusivity or otherwise restricted access would accrue directly to the original creators. Another situation where the emphasis placed on the personal interests of original creators could become topical is where authors are interested in a broad dissemination of their works, without necessarily being interested in payment (e.g., authors of scientific papers), whereas those holding the right to publication are eager to maintain full exclusivity. In that case, factor (ii) would allow to consider separately the interest of the authors, this time coinciding with the interest of users, and to balance both against the interests of the right holders. Finally, factor (ii) contains a novel element insofar as it does not only apply to original creators of works protected under copyright, but also to creators of other personal achievements, be they protected by industrial design or patent or any other intellectual property law. Although it is submitted that cases where this would be of practical relevance are extremely rare, it was nevertheless found that there is no cogent reason why consideration of original creators' personal interests should be restricted to copyright only.

(c) Paragraph 2 (b) (iii)

As the last item to be mentioned here, factor (iii) obliges Members to carry out a general proportionality test, measuring the extent and intensity of the use in relation to the protected right, and assessing it against the weight and priority to be given to the objectives to be pursued. Rather than expressing a novel rule, it is submitted that such a test is basically inherent in any balancing exercise and would have to be applied even without express mentioning, meaning that factor (iii) mainly serves clarification purposes.

#### **4. Article 8b – Interface between IP and competition law**

a) General remarks

One of the central points of criticism against the TRIPS Agreement in its present form has been that it merely strengthens intellectual property law, whereas competition law as the obvious corollary to strong property rights remains unregulated on the international level, with the exception of the rather weak provision in Article 40. It is indeed true that those Members whose intellectual property regimes have served as a model for the

obligations imposed by TRIPS have also developed efficient and sophisticated rules for controlling the exercise and possible abuse of market power. The lack of such competition rules in countries adopting, by virtue of TRIPS, basically “oversized” intellectual property protection standards could result in distortions in competition.

It could be argued that as TRIPS is concerned with the threat posed to international trade by increasing piracy and counterfeiting activities, internal regulations such as checking and balancing the conduct of powerful actors on domestic markets do not fall into its ambit. On the other hand, even in its current form, TRIPS goes far beyond what is needed to bolster the fight against international piracy and counterfeiting by imposing rather comprehensive rules with regard to the acquisition and protection of IP rights. It is therefore only consistent to go the entire way leading to a fully elaborated and fairly balanced legal system. In addition to the limitations of rights which are dealt with in Article 8a (above) as well as in the mandatory provisions set out in Part II, this also regards the IP/competition interface. However, this proposal does not go so far as to provide for a full-fledged model of competition and anti-trust regulation. Only those aspects are addressed which are of primary importance with regard to intellectual property.

As was already pointed out in the introduction, the problem of whether the amendments should include mandatory provisions is also of importance for the competition rules. As explained above, it was decided that in view of its paramount importance for the smooth functioning of IP law, these rules should indeed be of a mandatory character.

#### b) Paragraph 1

The main rule in Article 8b paragraph 1 stipulates that Members are not only free, but also obliged to take action by imposing either individual remedies in the form of compulsory licenses, or by enacting legislation, if the following conditions are met: (a) use of a product protected by an IP right is indispensable for competition on the relevant market (unless the application of remedies would lead to clearly undesirable results); (b) the exercise of an intellectual property right constitutes an abuse of a dominant position on the relevant market.

#### (1) Use of products which are indispensable for competition - Subparagraph 1 (a)

The first provision, (a), results from the structural pattern underlying the interplay between intellectual property and competition law, which can be described as follows: The grant of IP rights resulting in an exclusive market position clashes with the idea of freedom of competition. However, it is generally considered as justified if, and to the extent that, the restriction on competition at the production level leads to enhanced competition at a

higher level (typically the level of innovation), and if the actual amount of financial benefit accruing from the exclusive position granted to the right owner is determined through competition with other, substitutable goods (or services). Consequently, IP rights lose their justification in a situation when there is no competition at all, i.e. when the right holder has full control over the relevant market, with no substitutable goods (or services) being available. It should be clear that Members are entitled, and may be even obliged, to remedy such a situation by reacting through legislative or administrative measures, without additional conditions having to be fulfilled.

One basic difficulty arising in that context is that in many cases it will be problematic to define the “relevant market”, and to determine whether the absence of effective competition on that market is actually due to the existence of an intellectual property right. A clear ground for reaction will only be found in specific situations, like blocking of aftermarkets by IP rights covering spare parts, or controlling the interface between interoperable goods. Although the rule may lead to legal uncertainties in other than such clear-cut cases, it is submitted that these difficulties are not insurmountable; indeed, the issues that are brought to the fore in this context – like, in particular, the definition of the relevant market – are mostly familiar to those dealing with competition law, which is well equipped to tackle those tasks.

The conclusions to be drawn from the situation addressed under subparagraph (a) are qualified to some extent, as it is stipulated in the provision that even in view of a total blocking of competition, no administrative or legislative measures should be applied if this would be contrary to the overall aim to enhance innovative activities. Such a situation might arise e.g. when a patented invention at least for a certain time does convey a true monopoly in the sense that no substitutable products are available on the market, but when there is reason to assume that if competition law would immediately intervene with the result that price margins are substantially reduced, this would have a conspicuous chilling effect on further research activities and investments. The provision does not attempt to define in more detail the criteria on which the assessment should be based; these considerations are deemed to rest within the discretion and responsibility of the individual Members.

## (2) Abuse – subparagraph 1 (b)

Subparagraph (b) reflects typical EU competition law terminology and thinking. It may have to be reformulated so as to be understandable also to those used to a different system with its own particular parlance. Nevertheless, it is submitted that the principle encapsulated therein should be one which is basically capable of communicating, and of finding general acceptance as a valid reason for competition authorities to intervene.

It follows from this *caveat* that no attempt is made here to define the criteria for finding abuse of a dominant position any further. The proposed provision contents itself with stating the general principle. This is deemed sufficient for the purpose of this proposal to highlight the general rule, in order e.g. to counter any attempts to persuade Members, in the framework of bilateral agreements or otherwise, to introduce provisions granting immunity status to IP right against interferences on the basis of competition law.

c) Paragraph 2

By making Article 8b mandatory, Members would be under an obligation to establish a functioning system enabling them to monitor the effects of intellectual property on competition and to provide for adequate remedies in case of distortions. Although ultimately favorable to the genuine interests of Members' economy, this might lead to additional financial and organizational burdening. In that regard, the same considerations apply as with a view to the establishment and maintenance of the system for acquisition and control of IP rights. Paragraph 1 (a) therefore stipulates that the (new) rule set out in Article 8.3 (i.e. that the obligation of members to set up an efficient system for acquisition and cancellation of rights must respond to their respective state of development) should apply, *mutatis mutandis*, also with regard to the competition law system.

**5. Articles 13, 14.6, 17, 26.2 and 30 – Mandatory limitations**

a) General remarks

As set out in the introductory chapter, the proposal contains a set of mandatory limitations applying in the various fields of intellectual property, with the respective provisions replacing the present clauses reflecting the three-step test in its various forms.

It is submitted that to a large extent, the rules set out in the mandatory limitations already now form part of domestic legislation in many Member States. This concerns in particular the copyright provision, Article 13, which is partly modeled on the exceptions and limitations to be found in the Berne Convention. It is further assumed that the proposed provisions are largely self-explanatory; the following comments are therefore kept to a minimum.

Finally, it must be emphasized here again that the mandatory limitations set out in Part II only mark the minimal requirements posed with regard to such rules – or, seen from the perspective of rightholders, the substantive maximum to which the protection conferred by an IP right can be extended. It follows that Members remain free to impose other, more far-reaching limitations. In doing so, they have to respect the objectives and

principles contained in Articles 7 to 8b. A special paragraph reiterating that rule is joined to each of the limitations provisions.

## b) Article 13 - Copyright

Article 13 paragraph 1 (a) reflects the fact that any meaningful communication under contemporary conditions regularly demands some amount of copying as a technical step in the process. To allow for such copying to be performed in the manner necessary to enable communication is therefore considered to be an obvious requirement for all Members to comply with. An example for such a mandatory limitation can be found e.g. in Article 5.1 of the European Directive 2001/29 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society.

Subparagraph (b) addresses aspects that are of seminal importance for a copyright regime contributing to the welfare of society as a whole – quotations, news reporting, teaching and research. Regarding quotations, a limitation of arguably mandatory character is already set out in the Berne Convention (Article 10.1). Likewise, the Berne Convention acknowledges the privileged character of use for illustrative purposes in teaching, and of news reporting as well as the related aspect of access to documents of public interest (see in particular Articles 10.2 as well as Articles 2.8 and 2<sup>bis</sup>). The proposal confines the mandatory limitations to what is necessary for achieving their very purpose. It also ensures that the interests of rightholders are safeguarded to a sufficient degree, by adopting wording used in Article 10.1 Berne Convention, and, as an additional protective element which is of particular relevance for the interests of personal creators, by paraphrasing the aims and objectives underlying Article 6<sup>bis</sup> of the Berne Convention.

Subparagraph (c) is modeled on Article 5.2 (c) of EU Directive 2001/29 (see above), where it is one of numerous optional limitations. Contrary to that, it was considered here that the objectives motivating the limitation are so important nowadays with regard to the dissemination of knowledge and the reinforcement of cultural values that they should regularly be viewed as trumping countervailing interests in a full preservation of the exclusive right. However, by contrast to the preceding provisions, Members may make the reproduction of works under this clause dependent on payment of remuneration, if and to the extent they consider this as appropriate in view of their own domestic situation.

Paragraph 2 contains a general privilege for private copying. However, given that an internationally mandatory limitation of copyright with regard to private copying might actually erode the right vested in a protected work

to a quite substantial degree – e.g. where the extent of private copying, and the circumstances under which it takes place, are uncontrollable in practice, with the consequence that large parts of the right holder’s market would regularly be lost – it may be necessary to provide (at least) for adequate remuneration being paid to rightholders, in order to comply with the general guidelines for limitations as are set out in the *chapeau* of Article 8a, paragraph 2.

c) Article 14.6 – Related rights

Article 14.6 mainly reiterates the limitations set out in Article 13 by making the provision applicable *mutatis mutandis* with regard to related rights. In addition, it clarifies that to adopt rules modeled on the (other) limitations mentioned in the Rome Convention is generally considered to be in compliance with TRIPS. The system is similar to that already reflected to-date in Article 14.6 TRIPS in its interplay with Article 15 of the Rome Convention, with the marked difference that (a) the limitations corresponding to those mentioned in Article 13 TRIPS are of a mandatory character, and (b) Members are not bound by the restrictions in the Rome Convention, in particular as regards compulsory licenses. Even with the Rome Convention remaining untouched, this means that TRIPS Members not having adhered to it would retain greater freedom than at present to impose non-voluntary license schemes.

d) Article 17 – Trademarks

As a general rule, Article 17 exempts from trademark protection any use which is made for strictly non-commercial purposes. Whilst this appears to reflect a principle applying in the vast majority of countries where use “in the course of trade” or use “in commerce” is stipulated as one fundamental requirement for the raising of claims against other parties’ use of a mark, a mandatory, general and unqualified exclusion of that kind would give rise to problems in countries where, like e.g. in France or Italy, even strictly private use and possession of counterfeit goods fall under penal sanctions, with the aim to lay waste the market for such goods. No agreed opinion has been formed at this time (November 2006) within the working group on the desirability of banning such sanctioning of private conduct under rules of international law, or whether Members should remain free to impose criminal (or other) remedies which they view as discouraging international counterfeiting. In order to pave the way for the last-mentioned solution, wording has been added that would allow Members to impose sanctions even against private use and possession of counterfeit goods<sup>7</sup>. As there is no final agreement in the working group concerning this point, the phrase was put in square brackets<sup>8</sup>.

The other mandatory limitations set out in Article 17 are intended to safeguard freedom of speech in commercial and non-commercial matters, and to promote the distribution of relevant consumer information. The provision clarifies, however, that any such use must live up to general requirements of honest business practices, meaning in particular that consumers must in no case be misled as to the commercial origin of goods or services. Furthermore, paragraph 2 establishes as the baseline to be respected by any further limitations that the legislature might want to introduce that the distinguishing character of the trademark must not be diminished or tainted in any substantial manner.

e) Article 26.2 – Industrial designs

A mandatory exemption for private use of a protected design is stipulated in Article 26.2 (a). Subparagraph (b) contains exemptions that run parallel to those set out in copyright law (Article 13.1 (b)), also including the safeguards applying under copyright with regard to rightholders' interests, as far as they are of relevance for industrial design. Subparagraph (c) makes reference to a special situation covered by the international Convention on Civil Aviation (see the footnote to Article 26.2).

f) Article 30 - Patents

Article 30 contains the most detailed and comprehensive catalogue of limitations. Apart from private use, which is exempted from protection in a mandatory manner under paragraph 1 (a), the individual provisions are primarily based on concerns which coincide with the general goal of the patent system to promote technical efficiency and knowledge. This applies in particular to the exemptions for informational and experimental purposes (b), for preparing regulatory reviews as market access requirements (c), and for teaching (d); efficiency aspects are also of relevance for the repair exemption (e). Aspects of public healthcare are the main motive behind the exemption for preparation of drugs by pharmacists, which is substantially qualified by its limitation to prescriptions made in individual cases (f). As an element of justice balancing potential inequities ensuing from a first-to-file system in patent law, it is further made mandatory to introduce an exemption in favor of prior use, which must also include the situation that the use still was in a

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<sup>7</sup> "Counterfeiting" according to TRIPS comprises all sorts of trademark infringement, i.e. it is not confined to the critical cases, when identical or quasi-identical marks are used on the same products. The exception is therefore necessarily "oversized" in that regard, and it would remain within Members' sole responsibility to make wise use of it, if at all.

<sup>8</sup> Further discussions in the working group will have to address inter alia the point whether similar exceptions must be introduced in the provisions on mandatory limitations pertaining to private use in design and patent law, in order to allow, at Members' discretion, the enactment of horizontal legislation concerning anti-piracy measures and private behavior.

preparatory stage (g). Finally, the exemption resolving from the Convention on Civil Aviation (see above, on design law) also applies under patent law (h).

## **6. Articles 27.1, 28 and 29 – (Further) Changes Concerning Patent Law**

A number of changes have been introduced in the section on patents. Apart from the limitations provision, Article 30 (see above), this concerns inter alia Articles 28 and 29, where wording has been inserted in order to ensure that patent protection is limited to the function disclosed in the claims and the drawing. At least for the time being, this is of primary importance with regard to gene patents, but the rule is supposed to express a general principle that may be of relevance also in other fields, as technology evolves (e.g. in the area of nanotechnology).

Another change with regard to patents concerns the deletion in Article 27.1 of parts of the second sentence, i.e the prohibition against discrimination depending on the field of technology or on production abroad. The intended effect of this is, first, to allow Members to differentiate between specific requirements posed with regard to patents in certain areas – e.g. for patents relating to public health. It is submitted that such differentiated treatment already to-date would not necessarily be hindered by TRIPS; nevertheless, in order to rule out any doubts concerning this point, it is proposed that the reference made to field of technology in that part of the provision is dismissed.

By omitting the ban against discrimination according to production abroad or locally, the rule further makes way for allowing Members to (re)introduce a local working requirement. It is considered that the possibility to impose such a rule would be of notable interest for developing countries wishing to strengthen their own economies, and to gain better access to technological know-how.

## **7. Further provisions**

### **a) Article 40 – Control of anti-competitive practices in contractual licenses**

In accordance with the policy choices made by the group regarding mandatory/non-mandatory provisions (see above, I 2. (d)), Article 40 was reformulated so as to oblige Members to adopt legal schemes for control of anticompetitive licensing practices. No attempt was made to define in any detail the type of clauses that would have to be found inadmissible; these issues are left to Members' discretion.

### **b) Article 41a - Remedies against abuse of intellectual property rights**

Following the general idea that the TRIPS Agreement should be transformed into a more balanced instrument, Article 41a has been inserted in order to emphasize that Members are not only under an obligation to provide for efficient and deterrent sanctions with regard to the *infringement* of IP rights, but must likewise monitor and, as much as possible, deter right holders from unfairly harassing others, in particular by raising unjustified claims<sup>9</sup>.

The proposed provision does not seek to regulate the aspects addressed therein in more detail. It is however submitted that the general aim should be to achieve an overall “balance in arms”, meaning that e.g. legislatures providing for particularly severe sanctions for infringement, like punitive damages, should also provide for equally efficient deterrents concerning misuse and abuse of rights.

#### b) Article 41b

The general layout of the IPT project addressed in the introductory chapter was initially divided into two distinct parts, each one dealing with an aspect of IP rights that is traditionally considered as essential, but has come under criticism and scrutiny in recent years, namely “exclusivity” on the one hand and “territoriality” on the other. Whereas the results presented in the present document are focused on the “exclusivity” part of the project, the “territoriality” aspects – international jurisdiction and choice of law in transborder conflicts – are treated in a separate endeavor undertaken under the aegis of the Max-Planck-Institutes in Munich and Hamburg in cooperation with other international participants. Article 41b was inserted in order to mark the link between the two projects and thereby of the two central aspects that were, and still are, deemed as crucial with regard to the future of intellectual property.

The provision sets out some basic guidelines governing jurisdiction and choice of law on a global scale. The rules are of a principal character rather than providing for ready-made solutions. Thus, paragraph 1 stipulates that determination of the competent forum in transborder IP conflicts must respect the principles of due process and a fair balance of interests, and should not unduly hamper the efficient pursuit of justice, whereas paragraph 2 reflects the widely accepted dominance of *lex protectionis* with regard to

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<sup>9</sup> It is recognized that in general legal parlance, such conduct would be qualified as “misuse” of an intellectual property right rather than as “abuse”, which is a term usually reserved for the antitrust/competition law context. However, in order to apply consistent terminology throughout the text, and also considering that the conduct addressed in Article 41a should comprise “abuse” in the meaning of competition law as well, it was decided that “abuse” should be the term employed also here.

applicable law. Paragraph 3, finally, identifies those cases where, exceptionally, the *lex protectionis*-rule may be deviated from.

A.Kur, November 2006

This text was prepared on the basis of discussions conducted within the group, and with support by individual group members. However, any misconceptions or mistakes as to form or content are the sole responsibility of the author.